CANADIAN UTILITIES LIMITED

ANNUAL REPORT 1973

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annual report 1973

the year at a glance

	1973	1972	Increase (decrease)
Revenues (thousands)			
—Natural Gas	82,066	78,875	3,191
—Electric	38,305	33,849	4,456
—Total	$120,371	$112,724	7,647
Net earnings (thousands)	$ 14,375	$ 15,042	(667)
Basic earnings per common share*	$ 1.15	$ 1.22	(.07)
Dividends paid on common shares (thousands)	$ 5,535	$ 5,231	$ 304
—per share*	.55	.52	.03
Capital expenditures (thousands)	$ 39,200	$ 42,200	$ (3,000)
Customers at year-end			
—Electric	84,598	80,492	4,106
—Natural Gas	335,494	317,766	17,728
Average annual use per residential customer			
—Electric (kilowatt hours)	6,069	5,961	108
—Natural Gas (cubic feet)	212,300	230,000	(17,700)

* *After giving effect to the four for one subdivision of the common shares of September, 1972.*

board of directors

G. L. Crawford, Q.C.
Calgary
Barrister and Solicitor

F. T. Jenner*
Edmonton
Corporate Director

E. W. King
Edmonton
President and Chief Executive Officer, Canadian Utilities Limited

P. L. P. Macdonnell, Q.C.
Edmonton
Barrister and Solicitor

J. E. Maybin
Bryn Mawr, Pa.
Group Vice-President - Gas, Electric and Water Services
IU International Corporation

D. R. B. McArthur*
Edmonton
Chairman of the Board, Inland Cement Industries Ltd.

W. S. McGregor*
Edmonton
President, NuMac Oil & Gas Ltd.

J. M. Seabrook
Salem, New Jersey
Chairman and Chief Executive Officer
IU International Corporation

D. K. Yorath
Edmonton
Vice Chairman
IU International Corporation

*Member of audit committee

report to the shareholders

The Alberta economy continued to grow at an exceptional rate in 1973, supporting substantial increases in demand for the company's electric and gas utility services.

Revenues of $120,400,000, up 7 per cent over 1972, were at record levels in both electric and gas operations.

Net earnings were $14,400,000, or 4 per cent below the prior year, and after deducting preferred share dividends, amounted to $1.15 per share. The company has paid regular quarterly dividends on its common shares in March, May, August and November each year since 1958. In November, 1973, the common dividend was increased to an annual rate of 58 cents a share, from 54 cents a share.

Inflationary price pressure on all cost elements, including interest expense, prevented earnings from matching growth in revenue in 1973, and this remains a continuing concern.

The spectacular growth rate of the company's electric energy sales has now been sustained at over 18 per cent compounded over the last six years, much above Alberta and national rates. Forecasts indicate this growth will trend toward the provincial rate of 11 per cent, but expenditure on electric-plant expansion is still expected to continue on a record scale. Details of this growth are provided elsewhere in the report, but particular note is made here that the company serves the oil sands communities of Fort McMurray and Fort MacKay as well as those areas of Peace River and Cold Lake where there are enormous deposits of oil sands to be developed by in situ recovery methods. All are areas of extremely high interest at this time.

The sudden world awareness of energy values and shortages has brought unprecedented attention to Alberta's gas resources, both for increased export and local industrial use. The company now finds itself receiving a steady stream of inquiries for information on supplies for projected chemical plants to be located in this province. Historically it has undertaken planning to ensure that adequate supplies and plant facilities are available for its customers, and it is of the view that provincial export policy should now be one of greatly increased caution, before new gas is committed to export markets, until the needs of these proposed new local requirements can be fully assessed.

The company is favorably situated to participate in resource related developments in its service areas and intends to seek involvement in any such activities that are consistent with its financial and technical capabilities.

During the year the total number of customers served passed the 400,000 mark and at year end had reached 420,000.

The continued growth of the company, which is described in this report, and which in essence is a reflection of the needs of the consumers using the company's services, will require an ongoing and increasing capital construction program. To support the necessary new financings in the months and years ahead will, of course, require a continuing demonstration of financial integrity on the part of the company. At the same time, the inflation which is occurring in every element of operating expense and which shows no sign of abatement, is eroding the earnings essential to this demonstration. As a result, the company finds it must seek adjustments to its rates. In 1974 all three of its major subsidiaries, one of which has had no rate change since 1959, will be appearing before

E. W. KING
PRESIDENT AND
CHIEF EXECUTIVE
OFFICER
CANADIAN UTILITIES
LIMITED

the Alberta Public Utilities Board for this purpose. The realities of today's cost levels, unfortunately, leave no alternative, and in a recent finding the Utilities Board itself has indicated its awareness of the rapidly changing economic environment in which utility companies find themselves, by expressing a willingness to consider modifications to its procedures to expedite its proceedings. Much staff time is expected to be committed to these applications in 1974.

During 1973 and following restructuring of our group of companies, organizational and management changes took place to achieve a balanced and efficient team of individuals who can give leadership to all segments of operations and continue the company's excellent record in personnel relations. Illustrations of the company's senior management group appear in this report for the first time.

In addition to those who have served the company well and who retired from service in 1973 we wish to acknowledge the retirement from the board, and as an active member of management, of K. L. MacFadyen. Mr. MacFadyen, who was a senior vice-president, had been a director of our company and its subsidiaries since 1959.

The contribution and sincerity of service shown by the company's employees deserves special acknowledgment particuarly as the company enters into challenging and yet opportune times in serving the public need for energy.

On behalf of the Board of Directors

E. W. King

E. W. King
President and Chief Executive Officer

March 1, 1974.

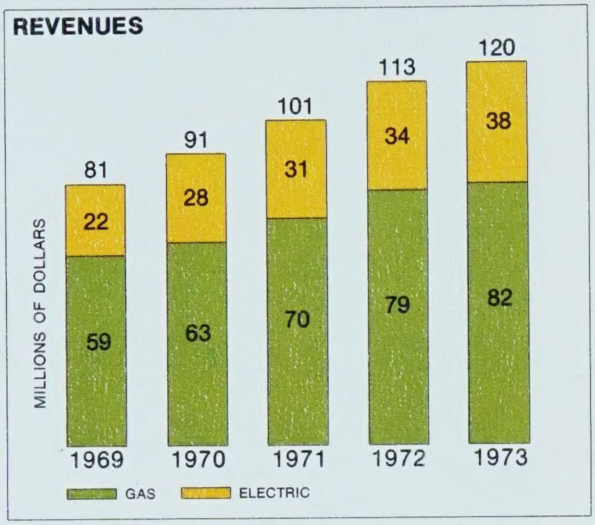
BOARD OF DIRECTOR CHANGES

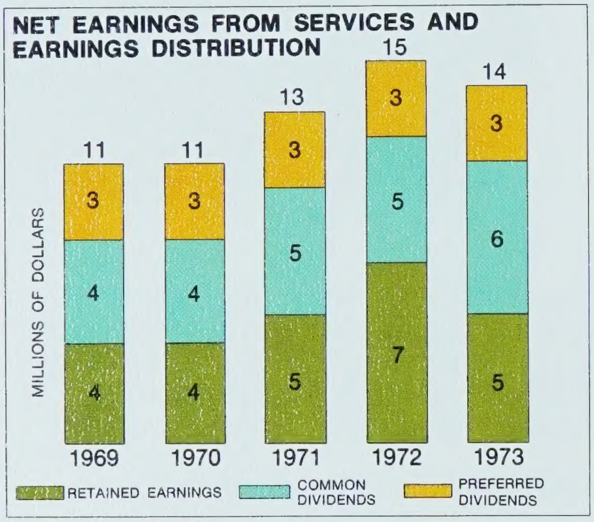
During the year K. L. MacFadyen retired as a director from the board, as well as from management of the company. He was a senior vice-president.

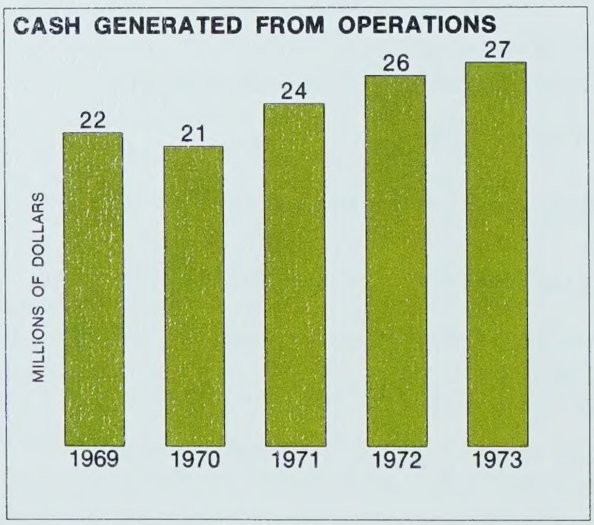
M. E. Stewart of Honolulu, former president of the gas companies, and a director of Canadian Utilities since 1969, resigned during the year.

P. L. P. Macdonnell, Q.C. partner in the Edmonton law firm of Milner & Steer, was elected to the board of directors in 1973.

On March 1, 1974, the directors appointed to the board Willis S. McLeese of Toronto. Mr. McLeese is president of Trans Canada Freezers, Limited and is a director of IU International Corporation.







financial review

REVENUES

Consolidated revenues for the year were $120,400,000, a 7 per cent improvement on prior year revenues of $112,700,000. A major portion of the gain was recorded in electric revenues, where buoyant conditions in the oil and gas industry supported growth of 13 per cent to $38,300,000.

Abnormally cold weather contributed $2,600,000 to 1972 gas revenues which was not repeated in 1973, a year of near-normal temperatures. On a normalized temperature basis, gas revenues increased an estimated 8 per cent to $82,100,000 in 1973.

NET EARNINGS	1973	1972	Increase (Decrease) 1973
	(Millions of Dollars)		
Revenues	120.4	112.7	7.7
Operating costs	88.5	82.4	6.1
Interest and other income deductions (net)	12.2	9.1	3.1
Income taxes	4.5	5.1	(0.6)
	105.2	96.6	8.6
Net earnings before minority interests and extraordinary charge	15.2	16.1	(0.9)
Net earnings	14.4	15.0	(0.6)

Net earnings were $600,000, or 4 per cent, below the level in 1972. Higher costs of gas supply, wages and materials were experienced particularly in the last half of 1973. Interest expense increased substantially following the commissioning of the H. R. Milner Station. The new thermal plant represents a 40 per cent increase in the electric generating capacity of the company.

On a per share basis, basic earnings for 1973 amounted to $1.15, compared to $1.22 in 1972, including extraordinary charges in 1972 of $0.01.

CASH GENERATION AND CAPITAL EXPENDITURES

A total of $26,900,000 was generated from operations in 1973 or $2.40 per common share. In the previous year cash generated amounted to $25,600,000 or $2.26 per common share. Depreciation expense in 1973 of $11,000,000 was $900,000 or 9 per cent above the prior year.

Additions to property, plant and equipment amounted to $39,200,000 (1972 additions—$42,200,000). In 1974, capital expenditures are expected to increase to $65,100,000 with $41,400,000 to be directed to expansion of electric utility facilities. The capital program will be financed by retained cash flow augmented by new financing during 1974.

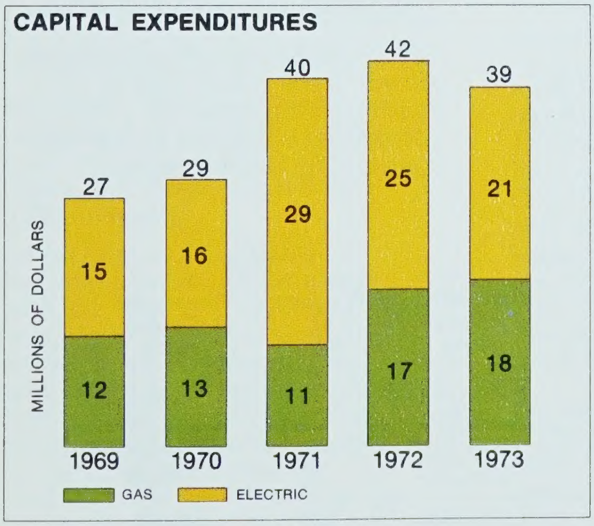
CAPITALIZATION AND NEW FINANCING

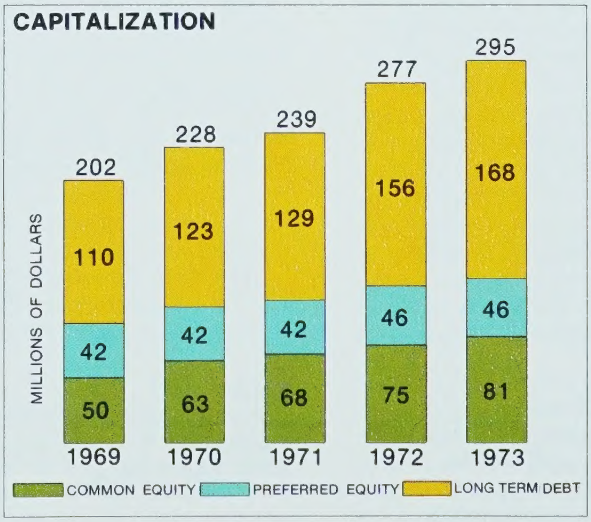
At the close of 1973, 57 per cent of permanent capital in the company was in the form of long term debt, an increase of 1 per cent over the debt component at the close of 1972. A $15,000,000 issue of debentures was privately placed in 1973 by Canadian Utilities. The company also expanded its use of the commercial paper market and during 1973 had available combined bank and commercial paper credit facilities of $45,000,000, of which $18,500,000 was unused at year-end.

Common shareholders equity increased from $75,200,000 to $81,300,000, or $7.47 per basic common share to $8.08.

SHARE EXCHANGE

During 1973 approximately 1,100 new Canadian holders of the $1.25 second convertible preferred shares were registered following their acceptance of an offer by IU International Corporation to exchange IU common shares for Canadian Utilities second preferred shares. As a result of the exchange approximately 38 per cent of CU convertible shares are owned by the Canadian public. Assuming subsequent conversion of all second preferred shares and outstanding warrants into CU common, approximately 23 per cent of CU shares would be owned by Canadian shareholders. Increasing Canadian shareholder participation in Canadian Utilities will continue to be an important factor in the company's plans.





report on operations

The Milner Building, head office of the company, in Edmonton

R. N. DALBY
EXECUTIVE VICE-PRESIDENT
CANADIAN UTILITIES LIMITED

electric service

SUMMARY

The company provides electric energy service through Alberta Power Limited and its subsidiary companies to east-central and northern Alberta including the cities of Drumheller, Lloydminster and Grande Prairie as well as the developing oil sands area at Fort McMurray, Cold Lake and Peace River. The company, through its subsidiary, The Yukon Electrical Company Limited, also provides electric service in the Yukon Territory, including the capital city of Whitehorse. The company also serves communities in the Northwest Territories including Hay River, an important inland port of the Mackenzie River system. A total of 365 communities are served by the company.

Substantial growth was experienced in sales to all classes of customers throughout the service area of the company. The number of electric consumers reached 84,598 at the end of 1973, an increase of 4,106. Energy sales totalled 1,782,908 thousands of kilowatt hours, an increase of 17 per cent over 1972.

Industrial sales again recorded the most significant gains, up nearly 200 million kilowatt hours over 1972. Industrial sales now represent 55 per cent of total sales, compared with 51 per cent in 1972. This large proportion of industrial sales has the effect of making greater utilization of company generating capacity and transmission lines. The load factor on the inter-connected system has risen from 48 per cent in 1968 to 66 per cent in 1973.

Revenue from sales of electric energy in 1973 was $38,300,000, an increase of $4,450,000 or 13 per cent over the prior year.

The following table illustrates this growth in the period 1968 to 1973, and the changing nature of the component classes of customers contributing to these sales.

	1973		1968	
	Per cent of Total	Thousands of Kilowatt Hours	Per cent of Total	Thousands of Kilowatt Hours
Residential	16	289,342	23	174,454
Commercial	17	296,999	26	197,945
Industrial	55	978,322	34	263,132
REA and Others	12	218,245	17	133,970
	100	1,782,908	100	769,501

ELECTRIC SYSTEM
MAJOR COMPANY TRANSMISSION LINES
& GENERATING PLANTS
MAJOR POWER LINES OWNED BY OTHERS

W. G. STERLING
SENIOR
VICE-PRESIDENT
ALBERTA POWER
LIMITED

R. H. CHOATE
VICE-PRESIDENT
OPERATIONS
ALBERTA POWER
LIMITED

Market Growth

Major gas and oil fields are located in the territory served by the company, fields which require substantial quantities of electricity, particularly for pumping. Sales of electric power to the petroleum industry produced revenues for the company of $9,960,000 in 1973. This represents 74 per cent of total industrial sales and an increase of $1,939,000 over 1972 from oil and gas customers.

At Rainbow Lake—Zama Lake additions were made to two large producer-owned gas plants and preliminary work started on a third. Major increases in energy sales occurred in the Swan Hills, Mitsue, Nipisi and Red Earth fields. The company now provides 2,300 electric service connections to 130 oil and gas companies.

Hay River, Northwest Territories, recorded a 16 per cent increase in customers and a 24 per cent increase in peak demand, to 4,000 kilowatts.

A new high of $18,000,000 for building permits, as compared with $15,700,000 in 1972, was reached in the city of Grande Prairie for 1973, reflecting a continuing high level of economic activity. Number of customers increased 11 per cent, supported by the commencement of production of the 750-ton per day Procter and Gamble cellulose pulp mill near the city which employs 700 people. A $10,000,000 rapeseed processing plant has been announced for Sexsmith, north of Grande Prairie with a load of about 2,500 kilowatts.

Dramatic growth is taking place in the town of Fort McMurray due to development of the nearby oil sands. Population has risen from 8,100 in 1972 to 9,600 in 1973, with predictions for 12,000 in 1974. Electric energy sales increased by 17 per cent during 1973. Orderly development of permanent residential areas is taking place, as well as creation of large mobile housing districts. The company has provided electric service to Fort McMurray since 1956.

The town of Slave Lake with $4,000,000 in building permits in 1973 is maturing into an important centre in northern Alberta with new industrial and residential expansion. Its population has risen from 1,700 just five years ago to in excess of 3,000 today.

The city of Lloydminster saw building permits almost double from $3,800,000 in 1972 to $6,200,000 in 1973. The city will benefit from a $10,000,000 rapeseed processing plant to be built in 1974 along with substantial residential expansion.

New subdivisions were opened in Hanna, Drumheller, Stettler, Oyen and Forestburg to accommodate continuing residential growth. Construction of a $6,000,000 Alberta government environmental laboratory will add 50 to 100 families to the Vegreville area.

Rural consumption of electric energy in Alberta reflected substantial improvement in farm cash income due primarily to sharp increases in prices for

KEITH PROVOST
VICE-PRESIDENT
ENGINEERING
ALBERTA POWER
LIMITED

G. N. PAICU
MANAGER
OF PRODUCTION
ALBERTA POWER
LIMITED

At Battle River generating station in east central Alberta.

grain and farm animals. Provincial government estimates indicate farm cash receipts reached $1,225,000,000 in 1973, up approximately 33 per cent over 1972. With evident improvements in farming technologies, the company's rural consumers are applying electric energy in many new ways to run more efficient farm plants. Hog production, grain handling, poultry and egg production, safety lighting, barn ventilation and cattle feeding and watering operations are a few of such applications.

During 1973 The Yukon Electrical Company experienced a 27 per cent increase in kilowatt hour sales, a 12 per cent increase in peak demand and a 12 per cent increase in number of customers. The return to full operation of the Whitehorse Copper Mine was the main reason for the large increase in kilowatt hour sales. Yukon Electrical, which began operation in 1901, now serves 17 communities in the Yukon as widely separated as Old Crow which lies 80 miles north of the Arctic Circle and Watson Lake, some 600 miles to the southeast. The largest centre of activity continues to be Whitehorse where the value of building permits for 1973 exceeded $6,000,000.

New Construction

The growth rate in electric energy demand followed patterns established over the last five years requiring the continuance of a high capital expansion program during 1973. Total capital expense was $21,400,000 of which $11,860,000 or 55 per cent was spent on new generating facilities. Transmission and distribution facility expenditures amounted to $8,650,000.

The 150,000 kilowatt H. R. Milner generating station, built at Grande Cache at a cost to date of $38,400,000, was commissioned on March 1, 1973, adding substantially to the capacity of the Alberta inter-connected power grid.

Construction of the fourth generating unit at the Battle River station was well underway during the year. Footings for a new 450-foot high stack were poured and work on other elements of the new unit proceeded on schedule. This 150,000 kilowatt unit is set for start up in late 1975 and is expected to cost a total of $51,500,000.

During 1974 and 1975 the company will install modern electrostatic precipitators on units one, two, three and four at Battle River, in addition to the new stack, at a cost of $10,325,000. Present stacks at the plant, built as recently as 1969 to meet environmental specifications in effect at that time, will be removed as part of the program to meet more stringent standards.

Expansion of the company's transmission system in 1973 included completion of a 144 kilovolt line from Barrhead to Swan Hills, a distance of 60 miles, and construction of 23 miles of 25 kilovolt line to interconnect the Great Canadian Oil Sands plant with the Fort McMurray system for an interchange of energy supply and facilities to supply construction power to the Syncrude Canada operation. A 14-mile extension was constructed north from Fort McMurray to supply the settlement of Fort MacKay and the small diesel generating station there was decommissioned.

gas service

J. H. PLETCHER
SENIOR VICE-PRESIDENT
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
NORTHWESTERN UTILITIES LIMITED

SUMMARY

Natural gas service is provided throughout the province of Alberta and to Dawson Creek, B.C. by the company's subsidiaries, Canadian Western Natural Gas Company Limited and Northwestern Utilities Limited. The two companies are fully integrated operations involving production, transmission and distribution of natural gas for residential, commercial and industrial consumers.

A total of 253 communities are served by the companies, including the cities of Edmonton, Calgary, Lethbridge, Red Deer, Grande Prairie, Camrose and Wetaskiwin. Approximately 75 per cent of Alberta's population is served by the companies.

Natural gas sales to residential and commercial customers are largely heating sales and consequently are temperature sensitive. In 1972 abnormally cold weather was experienced, with the result that natural gas sales were above normal. This situation was not repeated in 1973. The early part of the year was warmer than normal, but colder temperatures in November and December resulted in the year's average being approximately normal.

Due, however, to the connection of a record number of new customers, residential and commercial sales were maintained at about the same level as in the previous year. Industrial sales showed an increase of 11 per cent.

Service was extended to a record number of new customers, 17,728 during the year, an increase of 3,215 over those added in 1972. Considering the average number in a household this is equivalent to adding a city of about 60,000 to the system. At year-end the company had 335,494 natural gas customers.

Revenue from natural gas sales was $82,066,000 in 1973, an increase of $3,191,000 over the previous year, despite the substantial temperature difference referred to earlier.

The volume of natural gas sold, by classes of customer, follows:

	1973		1972	
	Billions of Cubic feet	Per Cent of Total	Billions of Cubic feet	Per Cent of Total
Residential	62	25	64	27
Commercial	68	28	67	29
Industrial	113	47	102	44
	243	100	233	100

Newest addition to Carbon Field station, this building houses third and largest compressor.

A. J. L. FISHER
VICE-PRESIDENT AND
GENERAL MANAGER
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

Market Growth

New records in value of building permits were established in the two largest Alberta cities both of which are served by the company. Calgary reports building permits for 1973 totalled $242,000,000 while Edmonton's total was $186,000,000.

Construction during the year included a number of large projects in the Edmonton area. Among them were a $12,500,000 sport-convention coliseum, a $19,000,000 steel plant expansion; a $200,000,000 oil refinery, and in Edmonton's downtown core project, the Edmonton Centre, which at $50,000,000, will be Alberta's largest office and commercial project. In addition $32,000,000 in hotel developments were underway as well as multimillion dollar shopping facilities.

In addition to these developments in the Edmonton area a proposal by Dow Chemical for a $500,000,000 petrochemical and pipeline complex is centred on Fort Saskatchewan, northeast of the city.

In Calgary 1973 was another year of growth in the downtown business area, with new office buildings, terrace complexes, parking structures and commercial buildings underway. The Chinook Ridge Centre, one of the largest shopping areas under one roof in North America, was created by joining two shopping centres. Additions to the Calgary Exhibition and Stampede included a new $14,000,000 grandstand and racetrack, to be ready for the 1974 exhibition.

Lethbridge experienced a 72 per cent increase in building permits to $28,500,000. Natural gas service was extended to the $12,000,000 Palliser distillery, which provides a market for local crops some of which are irrigated by natural gas pumping units.

As we have noted in the electric operation report two other communities which experienced substantial growth in 1973 were Grande Prairie, aided by the nearby pulp mill, and Fort McMurray which, due to the oil sands development, will become a major Alberta community. Both are served with natural gas by the company.

Alberta is a leading producer of agricultural fertilizers. Existing plants use large volumes of natural gas as a feedstock in producing fertilizer. Due to the energy shortages developing in other parts of North America there has been significant interest on the part of prospective new producers who have indicated strong intentions of locating in our service area. A number of inquiries have also been received by our marketing department relating to large petrochemical applications which indicate prospects for substantial growth for this industry in Alberta.

The Alberta government's Rural Gas Act was enacted in 1973. It makes provision for substantial capital grants to rural residents and has helped to bring natural gas to a greater number of rural families. The company has worked closely with the government on this program. In addition to growth generated by this new act the company's own rural service program, which continues to be well received by the farming community, added substantial numbers of new customers in 1973. Further extensions will be made in 1974.

Opening this spring is new gas dispatching station in southeast Edmonton, main control centre for Northwestern's entire integrated natural gas system

D. B. COLLIER
VICE-PRESIDENT AND GENERAL MANAGER
NORTHWESTERN UTILITIES LIMITED

New Construction

Capital expenditures by the natural gas utilities were $17,800,000 in 1973. This includes approximately $8,000,000 for production and transmission facilities. In the Carbon field new wells and field line improvements were added to increase the field deliverability and complete the second stage of a storage and peaking project begun in 1972.

To connect the record number of new customers to the company's system required distribution expenditures of $7,000,000. This includes improvements to meet load growth in the existing system. Other expenditures were made for additions to service facilities and equipment.

Gas Supply

Cost of natural gas supply to the company was $35,907,000, which represents 41 per cent of the operating expenses of the company and is an increase of $3,550,000 over 1972. This is the largest single component of company expense.

The company purchases the major portion of its supplies of gas from oil fields where solution gas extracted in conjunction with oil is gathered and processed; and from gas fields from which wet gas is gathered and centrally processed before delivery to pipelines, as well as from dry gas fields from which gas can be introduced almost directly into pipelines. The company owns gas producing properties which are a significant source of supply for peak requirements. In addition, volumes of gas are purchased from export and other natural gas pipeline companies.

The company's geological staff estimates that at the end of 1973 the company owned outright 677 billion cubic feet and had under firm contract 1,885 billion cubic feet from fields from which it produces or purchases natural gas; and that an additional 2,264 billion cubic feet will be available for purchase in the future from fields where the estimated gas producing life exceeds the term of existing gas purchase contracts. These reserves are exclusive of any amounts that may be purchased under agreement with the export companies. The company's geological staff estimates that the reserves owned outright, or under contract, are equal to 11 times the 1973 requirements. When these reserves are added to the 2,264 billion cubic feet available for future purchase the total is 20 times the 1973 requirements.

To meet future requirements of the system, the company pursues a program of exploration, acquisition and development of additional gas properties, and continues its policy of contracting for economic supplies of gas from other companies.

A. M. ANDERSON
TREASURER
CANADIAN UTILITIES LIMITED

W. A. SULLIVAN
SECRETARY
CANADIAN UTILITIES LIMITED

H. N. BOTTOMLEY
CONTROLLER
CANADIAN UTILITIES LIMITED

Notwithstanding the Alberta government's policy that local consumers take priority over out-of-province demand for natural gas, the company feels it is advisable and advantageous to have additional major supplies at hand. For this reason the company has entered into agreements with four major export companies, TransCanada PipeLines Limited, Alberta and Southern Gas Co. Ltd., Consolidated Natural Gas Limited and Westcoast Transmission Company Limited, which enable the company to call upon these gas exporters for very large quantities of base-load and peak-load gas.

Due to the continuing uncertainties associated with new long term purchase contracts caused by unstabilized pricing conditions, larger than normal volumes of gas were purchased during the year from the export companies. These purchases were made under the special contractual arrangements with the export companies.

The following table shows the related volumes of gas obtained from the various types of gas supply sources in 1973:

	Per cent of Total Supply
Oilfield and gas plants	53
Dry gas fields	24
Export companies	16
Pipe line companies	7
	100

The Northwestern system supplied 24 per cent of its annual requirements from primarily company owned interests in Viking-Kinsella, Beaverhill Lake, Fort Saskatchewan, Fairydell-Bon Accord and other dry gas fields. Gas from these sources was primarily used to meet the winter season's peak demands.

The storage fields at Carbon and Bow Island were capable of supplying 39 per cent of Canadian Western's total system demand.

Exploratory drilling by the company resulted in five successful gas wells out of eight ventures attempted. A well drilled at Carbon discovered potential new reserves in three different zones. Three wells were drilled at Viking-Kinsella, and testing of these wells indicates possible additional gas reserves. Another drilled at Fairydell-Bon Accord was completed as a productive gas well. Three test wells at Granum, Fairydell-Bon Accord and Arrowwood proved non-commercial and were abandoned.

Research

The company has continued to expand its natural gas fuelled vehicle program. This work has led to the adoption of this dual fuel system for city fleets. At the present time 105 vehicles have been converted, and additional units will be added in the coming year.

The company continues to support the fuel cell research program described in previous annual reports. Public interest in this project has remained at a high level.

In an effort to reduce costs, particularly in rural areas, through the introduction of new technology, research projects involving the installation of coiled steel pipe and aluminum tubing were undertaken during the year.

Downtown Edmonton

B. M. DAFOE
VICE-PRESIDENT
RATE ADMINISTRATION
CANADIAN WESTERN NATURAL GAS COMPANY LIMITED
NORTHWESTERN UTILITIES LIMITED

D. R. BRANDT
VICE-PRESIDENT
CORPORATE DEVELOPMENT
CANADIAN UTILITIES LIMITED

future expansion

Growth Potential

Dramatic growth in the energy field, new industrial establishment, expansion of present business and industrial concerns, and new vitality in rural as well as urban sectors of Alberta and northern Canada are encouraging for the future expansion of the company.

The vast energy reserve of the oil sands in northern Alberta is attracting major international investment that promises to make the province one of the fastest growing economic regions in North America. The Energy Resources Conservation Board estimates the ultimate recoverable reserves of synthetic crude in Alberta to be 250 billion barrels. This is equivalent to approximately 45 per cent of the world reserves of conventional crude.

This rapid influx of new development emphasizes the growth opportunity for the company which is participating as a developer and supplier of electric and natural gas energy services in these northern areas.

The company has recently joined Canadian Arctic Gas Study Limited, a 27-member consortium of companies studying the feasibility of constructing a 2,600 mile pipeline to transport natural gas from the Arctic up the Mackenzie Valley for Canadian and United States consumption. Arctic Gas plans to file application to construct the pipeline early in 1974.

Projected Capital Expenditures

Capital expenditures for the company in 1974 are estimated to be $65,100,000. Expenditures for electric generating, transmission and distribution facilities are forecast to amount to $41,400,000, the largest capital outlay in the electric utility's 46-year history. Nearly $27,000,000 is expected to be spent for construction of generating facilities.

Capital appropriations for gas operations of $23,700,000 are anticipated for the connection of an additional 15,000 new urban and rural customers. Extension and improvements to gas distribution systems will account for $5,800,000. Largest single gas project will be a $3,000,000,

G. R. CAMERON
EXECUTIVE ASSISTANT AND COORDINATOR
ENVIRONMENTAL PROGRAMS
CANADIAN UTILITIES
LIMITED

24-inch pipeline 25 miles long, which will have the capacity eventually to deliver 600 million cubic feet of natural gas per day into Edmonton.

Work will begin in 1974 on two major electric transmission lines. A 240 kilovolt line will be built from Slave Lake to the Fort McMurray region at an estimated cost of $8,800,000. Formal approval to build this 170-mile line was received early in 1974 following hearings before the Energy Resources Conservation Board. This line will connect with the Alberta grid and provide for the growing electrical needs of the Fort McMurray area as well as standby support to the Syncrude Canada oil sands project.

The second major transmission line will be the first connection between the interconnected power grid of Alberta and the Northwest Territories. A 144 kilovolt line is planned to be built from High Level, Alberta to the Mackenzie River navigation port of Hay River, on the shores of Great Slave Lake, a distance of 190 miles. Estimated cost of this line is $3,500,000.

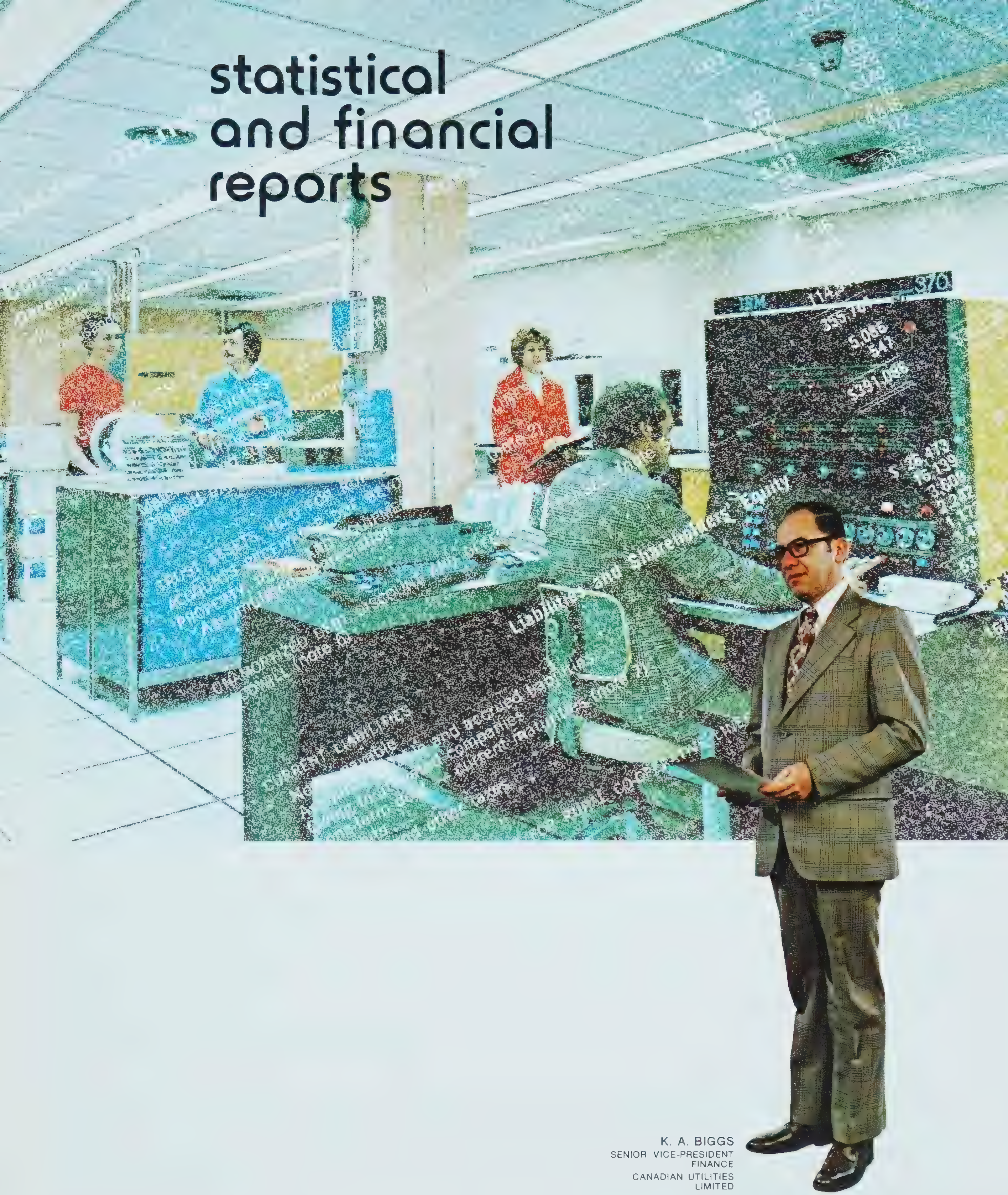
Development of Alberta as well as the Canadian north will require substantial expansion of electric energy generating capacity. Company load growth is expected to double from 1973 to 1980.

To ensure orderly development of generating and transmission capacity the Electric Utility Planning Council, of which the company's electric subsidiary, Alberta Power Limited, is an active member, was formed in 1972 by all Alberta power utilities to co-ordinate planning for future electrical needs of the province. During 1973, the council received the results of an engineering study which it had commissioned on future alternative major power generating facility developments in Alberta. The study will aid the member utilities in making decisions on new capital generating facilities required in the province over the next 25 years.

As a result of this study a decision has been made to construct a fifth generating unit at Battle River and an application to proceed with the new unit has been filed with the Energy Resources Conservation Board. A 375,000 kilowatt unit, the largest to be added to the company's generating facilities, it is expected to be commissioned in 1979 and will cost an estimated $132,000,000.

Generating capacity of the unit will be larger than that required to meet the anticipated needs of the company's own customers but it is being built to meet provincial needs as determined by the findings of the Electric Utility Planning Council. Ownership and financing arrangements are still to be determined in conjunction with the power distributors in Alberta.

statistical and financial reports



K. A. BIGGS
SENIOR VICE-PRESIDENT
FINANCE
CANADIAN UTILITIES
LIMITED

Consolidated Statement of Earnings

Year ended December 31, 1973

with comparative figures for 1972
(in thousands)

	1973	1972
NATURAL GAS REVENUES	$ 82,066	$ 78,875
ELECTRIC REVENUES	38,305	33,849
	120,371	112,724
OPERATING EXPENSES		
Natural gas supply	35,907	32,357
Operating and maintenance	34,729	33,389
Taxes — other than income	6,829	6,516
Depreciation (note 2)	11,019	10,134
	88,484	82,396
OPERATING INCOME	31,887	30,328
OTHER INCOME		
Interest capitalized during construction	785	2,170
Interest and dividends	208	466
Gain on purchase of long-term debt	328	36
Miscellaneous	253	306
	1,574	2,978
	33,461	33,306
INCOME DEDUCTIONS		
Interest on long-term debt	11,931	11,033
Interest on loans from parent and affiliated companies	371	459
Other interest	1,153	438
Debt discount and expense amortized	235	229
	13,690	12,159
	19,771	21,147
INCOME TAXES (note 3)	4,536	5,054
	15,235	16,093
MINORITY INTERESTS	860	962
NET EARNINGS BEFORE EXTRAORDINARY ITEM	14,375	15,131
EXTRAORDINARY ITEM — NON-RECURRING LOSS		89
NET EARNINGS	$ 14,375	$ 15,042
EARNINGS — DOLLARS PER COMMON SHARE		
Basic		
Net earnings before extraordinary item	$ 1.15	$ 1.23
Extraordinary item — non-recurring loss		.01
Net earnings	$ 1.15	$ 1.22
Fully diluted (note 4)		
Net earnings before extraordinary item	$ .99	$ 1.05
Extraordinary item — non-recurring loss		.01
Net earnings	$ .99	$ 1.04

See accompanying notes to consolidated financial statements

Consolidated Balance Sheet

December 31, 1973

with comparative figures for 1972
(in thousands)

Assets

	1973	1972
CURRENT ASSETS		
Cash	$ 502	$ 654
Marketable securities — at cost (market value 1973 $654; 1972 $832)	522	522
Accounts receivable	15,474	14,140
Owing by affiliated companies	17	16
Materials and supplies — at average cost	5,313	4,848
Prepaid expenses	534	372
	22,362	20,552
TRUST ASSETS HELD FOR RURAL CO-OPERATIVE LINES, PER CONTRA	6,136	5,867
ACCOUNTS RECEIVABLE DUE BEYOND ONE YEAR	1,194	1,314
PROPERTY, PLANT AND EQUIPMENT AT COST (note 2)	470,308	435,847
Accumulated depreciation	114,547	105,574
	355,761	330,273
UNAMORTIZED DEBT DISCOUNT AND DEFERRED EXPENSES (note 5)	5,086	4,512
GOODWILL (note 6)	547	562
	$391,086	$363,080

Liabilities and Shareholders' Equity

	1973	1972
CURRENT LIABILITIES		
Notes payable	$ 26,473	$ 18,500
Accounts payable and accrued liabilities	16,139	14,075
Owing to affiliated companies	3,609	5,033
Long-term debt — current maturities (note 7)	2,242	3,153
Deposits	1,173	1,055
Income and other taxes	3,482	2,746
	53,118	44,562
AMOUNTS HELD IN TRUST FOR RURAL CO-OPERATIVE LINES, PER CONTRA	6,136	5,867
MISCELLANEOUS LIABILITIES	1,037	984
LONG-TERM DEBT (note 7)	167,512	155,958
DEFERRED INCOME TAXES (note 3)	1,428	1,650
CONTRIBUTIONS FOR EXTENSIONS TO PLANT	14,437	12,697
MINORITY INTERESTS (note 8)	20,008	20,008
SHAREHOLDERS' EQUITY (note 7)		
Preferred shares (note 9)	46,058	46,078
Common shares (note 10)	65,324	65,301
	111,382	111,379
Less excess value of shares of subsidiary companies over underlying net book value at December 31, 1971	17,567	17,567
	93,815	93,812
Retained earnings	33,595	27,542
	127,410	121,354
	$391,086	$363,080

On behalf of the Board:

E. W. KING, Director

F. T. JENNER, Director

See accompanying notes to consolidated financial statements

Consolidated Statement of Retained Earnings

Year ended December 31, 1973

with comparative figures for 1972
(in thousands)

	1973	1972
BALANCE AT BEGINNING OF YEAR	**$ 27,542**	$ 20,497
ADD NET EARNINGS	**14,375**	15,042
	41,917	35,539
DEDUCT DIVIDENDS		
5% cumulative redeemable preferred shares	**200**	200
Cumulative redeemable preferred shares:		
4¼% series	**64**	64
6% series	**300**	300
$1.25 cumulative redeemable convertible second preferred shares	**2,223**	2,202
Common shares	**5,535**	5,231
	8,322	7,997
BALANCE AT END OF YEAR	**$ 33,595**	$ 27,542

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1973

with comparative figures for 1972
(in thousands)

	1973	1972
SOURCES OF WORKING CAPITAL		
Net earnings	**$ 14,375**	$ 15,042
Add non-cash items, principally depreciation	**12,568**	10,514
Provided from operations	**26,943**	25,556
Issue of long-term debt	**14,850**	29,351
Issue of common shares	**22**	40
Issue (redemption) of second preferred shares	**(20)**	4,392
Decrease in accounts receivable due beyond one year	**120**	280
Increase in contributions for extensions to plant	**1,740**	2,048
Disposition of property, plant and equipment	**1,571**	826
	45,226	62,493
USES OF WORKING CAPITAL		
Purchase of property, plant and equipment	**38,061**	41,252
Reduction in long-term debt	**3,446**	3,341
Reduction in long-term notes payable		3,500
Dividends paid — preferred	**2,787**	2,766
— common	**5,535**	5,231
Purchase of minority interest in subsidiaries		3,818
Purchase of goodwill		574
Other	**2,143**	615
	51,972	61,097
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (6,746)**	$ 1,396

Analysis of Changes in Working Capital

	1973	1972
Cash	**$ (152)**	$ (30)
Marketable securities — at cost		(10)
Accounts receivable	**1,334**	3,083
Owing by affiliated companies	**1**	6
Materials and supplies	**465**	79
Prepaid expenses	**162**	3
Total	**1,810**	3,131
Notes payable	**7,973**	550
Accounts payable and accrued liabilities	**2,064**	563
Owing to affiliated companies	**(1,424)**	2,154
Long-term debt — current maturities	**(911)**	370
Deposits	**118**	(1,813)
Income and other taxes	**736**	(89)
Total	**8,556**	1,735
INCREASE (DECREASE) IN WORKING CAPITAL	**$ (6,746)**	$ 1,396

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

December 31, 1973

1. Basis of consolidation

The consolidated financial statements include the accounts of the company and all subsidiary companies. All material intercompany balances and transactions have been eliminated.

2. Property, plant and equipment

Depreciation on property, plant and equipment is provided on a straight line basis over the estimated useful lives of the assets and is in accordance with the orders of regulatory bodies. Effective rates are approximately 3% per annum on the gross plant. In addition certain natural gas and storage facilities are depreciated in part on a unit withdrawal basis.

Property, plant and equipment is summarized as follows:

	1973		1972	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 1,526,000	$	$ 1,496,000	$
Undertakings, franchises, gas rights, etc.	8,000,000		8,000,000	
Electric utility plant and equipment	217,570,000	35,954,000	197,561,000	31,814,000
Gas utility plant and equipment	243,212,000	78,593,000	228,790,000	73,760,000
Balance at December 31	$470,308,000	$114,547,000	$435,847,000	$105,574,000

3. Income taxes

In fixing rates, except for the matters referred to in the succeeding paragraph, the Public Utilities Board for the Province of Alberta permits the utility companies to recover only taxes payable currently and accordingly, to the extent that capital cost allowances are claimed in excess of the depreciation recorded in the accounts, there has been a related reduction in the amount of income taxes otherwise payable.

The companies are permitted, however, to claim deferred income taxes in respect to the acquisition of natural gas rights for their utility systems, but, at the specific request of the major communities served, they have agreed with effect from January 1, 1967 to amortize such deferred taxes by reducing the annual provisions for income taxes over a ten-year period. In addition, in 1973 the companies are recording deferred income taxes arising from expenses in connection with the Gas Arctic-Northwest Project Study Group as referred to in note 5.

Included in the provision for income taxes contained in the consolidated statement of earnings is deferred taxes of $632,000 in 1973 and a reduction of deferred taxes of $124,500 in 1972.

Total deferred income taxes increased by $4,650,000 during 1973 ($3,140,000 in 1972). The cumulative amount of deferred income taxes to December 31, 1973, is $25,690,000 of which $1,428,000 has been recorded in the accounts as a deferred credit and $854,000 as a reduction in deferred expenses.

4. Earnings per common share

In the fully diluted earnings per common share calculation, the assumption is made that warrants for the purchase of 595,160 common shares at $9 had been exercised at the beginning of each year and that the funds derived therefrom had been invested to produce an annual rate of 8% before applicable income taxes. In addition, the calculation assumes conversion of the second preferred shares at the beginning of each year.

5. Unamortized debt discount and deferred expenses

Unamortized debt discount and deferred expenses consist of the following:

	1973	1972
Unamortized debt discount and expense Expenses incurred in connection with long-term debt obligations are amortized over the period that related obligations are outstanding.	$3,366,314	$3,451,631
Participation in Gas Arctic-Northwest Project Study Group Upon receipt of necessary regulatory approvals and formation of a pipeline company, the company's expenditures may be invested in a share or other security interest. Should the project not proceed, regulatory approval will be sought by the company to include the amount in the rate base of the gas subsidiaries to be amortized over an agreed period. The amount is after deducting deferred taxes of $854,000.	906,252	
Other deferred charges Unamortized expense incurred in connection with corporate reorganization and gas exploration.	813,241	1,060,412
	$5,085,807	$4,512,043

6. Goodwill

Goodwill consists of the excess value of shares issued over the underlying net book value of shares acquired in 1972 from minority shareholders of a subsidiary company and is being amortized over a period of 40 years.

7. Long-term debt

Long-term debt is summarized as follows:

	Total	Current Maturities
Canadian Utilities Limited:		
8⅜% debentures 1972 Series, due March 1, 1992	$ 30,000,000	$
8¾% debentures 1973 Series, due July 2, 1993	15,000,000	
	45,000,000	
Alberta Power Limited:		
First mortgage sinking fund bonds:		
Series B — 3⅖%, due December 1, 1975	435,750	435,750
Series C — 3⅖%, due December 1, 1974	1,878,000	51,000
Series D — 4¼%, due November 1, 1979	3,440,000	40,000
Series E — 4⅛%, due April 1, 1981	3,129,000	
Series F — 5½%, due December 1, 1986	5,000,000	
Series G — 5⅝%, due June 1, 1990	12,000,000	
Series H — 6½%, due February 1, 1992	8,000,000	
Sinking fund debentures:		
Series A — 7¼%, due May 15, 1988	14,218,000	
Series B — 9⅝%, due December 15, 1991	9,000,000	150,000
Series C — 8%, due June 1, 1976	10,000,000	
	67,100,750	676,750
Canadian Western Natural Gas Company Limited:		
First mortgage sinking fund bonds:		
Series B — 5¾%, due February 1, 1982	4,074,000	
Series C — 5⅜%, due April 1, 1983	2,779,000	
Series D — 5⅝%, due May 1, 1989	4,000,000	125,000
Series E — 7%, due June 15, 1992	6,125,000	175,000
Sinking fund debentures:		
9¾%, due December 1, 1990	9,625,000	375,000
	26,603,000	675,000
Northwestern Utilities Limited:		
First mortgage sinking fund bonds:		
Series E — 3⅝%, due December 15, 1975	1,070,000	235,000
Series F — 4¾%, due January 15, 1979	1,404,000	211,500
Series G — 5⅜%, due April 15, 1983	4,252,000	
Series H — 5¾%, due March 1, 1988	8,528,500	
Series I — 6½%, due May 1, 1992	4,220,000	130,000
Series J — 9¾%, due December 15, 1994	7,168,000	208,000
Sinking fund debentures:		
Series C — 6¾%, due May 1, 1977	574,500	
Series D — 6¾%, due December 1, 1978	597,000	
Series E — 7¼%, due October 15, 1985	3,236,000	106,000
	31,050,000	890,500
Total long-term debt	169,753,750	$ 2,242,250
Deduct current maturities	2,242,250	
Long-term debt less current maturities	$167,511,500	

The long-term debt outstanding and current maturities thereof are stated after deducting bonds and debentures which have been purchased by the companies and are held for future sinking fund payments and excluding requirements which may be satisfied by certification of property additions.

Instalments of long-term debt maturing in each of the calendar years 1974, 1975, 1976, 1977 and 1978 amount to $2,242,250, $5,309,500, $13,614,500, $4,994,500 and $4,971,500 respectively. These maturities exclude requirements which may be satisfied by certification of property additions and after deducting bonds and debentures which have been repurchased.

The bond and debenture indentures executed by the company and its subsidiaries place limitations on the company and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1973 and 1972, approximately $21,598,000 and $15,545,000, respectively, were free from such restrictions.

8. Minority interest

Minority interest consists of the following:

Northwestern Utilities Limited:		
105,000 4% cumulative redeemable preference shares of the par value of $100 each		$10,500,000
Canadian Western Natural Gas Company Limited:		
275,410 4% cumulative redeemable preference shares of the par value of $20 each	$5,508,200	
200,000 5½% cumulative redeemable preference shares of the par value of $20 each	4,000,000	9,508,200
		$20,008,200

9. Preferred shares

Authorized:

40,000 5% cumulative redeemable preferred shares of the par value of $100 each.

150,000 series preferred shares of the par value of $100 each, issuable in series, of which 15,000 shares have been designated as cumulative redeemable preferred shares, 4¼% series and 50,000 shares have been designated as cumulative redeemable preferred shares, 6% series.

1,780,000 $1.25 cumulative redeemable convertible second preferred shares of the par value of $20 each, convertible into 2 common shares up to January 15, 1982 and into 1.6 common shares up to January 15, 1992 and having one vote in respect of each two shares. The conversion rates are subject to adjustment under certain circumstances.

Issued:

	1973		1972	
	Number of Shares	Value of Shares	Number of Shares	Value of Shares
Issued and redeemable at the option of the company on thirty days' notice:				
5% series (redeemable at $104 per share)	40,000	$ 4,000,000	40,000	$ 4,000,000
4¼% series (redeemable at $102.50 per share)	15,000	1,500,000	15,000	1,500,000
6% series (redeemable at $105 per share on or before February 1, 1972, thereafter reducing at various dates to a minimum redemption price of $101 per share)	50,000	5,000,000	50,000	5,000,000
Issued and non-redeemable up to January 15, 1982 (unless the number of shares outstanding is equal to or less than 75,000), thereafter redeemable at the option of the company on thirty days' notice at $20 per share:				
$1.25 second preferred shares				
Balance at beginning of year	1,778,889	35,577,780		
Issued during year in exchange for ordinary shares of Canadian Western Natural Gas Company Limited			1,780,000	35,600,000
Converted at varying dates into common shares without nominal or par value	(950)	(19,000)	(1,111)	(22,220)
Issued and outstanding	1,777,939	35,558,780	1,778,889	35,577,780
Balance at end of year		$46,058,780		$46,077,780

10. Common shares

Authorized:

30,000,000 without nominal or par value

Issued:

	1973		1972	
	Number of Shares	Value of Shares	Number of Shares	Value of Shares
Balance at beginning of year	10,062,646	$65,301,672	4,729,096	$17,297,500
Issued January 5, 1972 in exchange for all the outstanding common shares of Northwestern Utilities Limited and all the outstanding common and preferred shares of Northland Utilities Limited			5,326,928	47,942,352
Issued on conversion of second preferred shares	1,900	19,000	2,222	22,220
Issued on exercise of share purchase warrants	360	3,240	4,400	39,600
Balance at end of year	10,064,906	$65,323,912	10,062,646	$65,301,672

Number of shares for the year 1972 are after restatement to give effect to a four-for-one stock split as at September 15, 1972.

At December 31, 1973 the company has reserved 4,151,038 common shares for issue as follows:

In connection with share purchase warrants outstanding exercisable at a price of $9 per share (Price is subject to adjustment in certain circumstances). The warrants expire May 15, 1978	595,160
In connection with the $1.25 cumulative redeemable convertible second preferred shares	3,555,878
	4,151,038

11. Remuneration of directors and officers

During the year ended December 31, 1973 the company paid aggregate remuneration of $39,400 to 13 directors as directors ($30,350 to 16 directors in 1972) and $300,434 to 10 officers as officers ($224,677 to 8 officers in 1972). Three officers were also directors in 1973 and in 1972.

12. Commitments

Commitments under contracts pertaining to construction of new plant amounted to approximately $31,850,000 at December 31, 1973, all with respect to the Battle River generating plant. Upon completion of the plant in 1975, total expenditures are estimated to be $51,550,000 of which $8,940,000 has been recorded to December 31, 1973.

The companies have in effect a pension plan covering substantially all of their employees. At December 31, 1973, the aggregate unfunded past service liability, being amortized over periods not exceeding eighteen years, amounted to approximately $4,086,000.

13. Presentation of 1972 figures

Certain 1972 comparative figures have been re-grouped to conform with the 1973 presentation.

auditors' report

We have examined the consolidated balance sheet of Canadian Utilities Limited and subsidiaries as of December 31, 1973 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries as of December 31, 1973 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Edmonton, Alberta
January 31, 1974

Ten Year Growth Summary

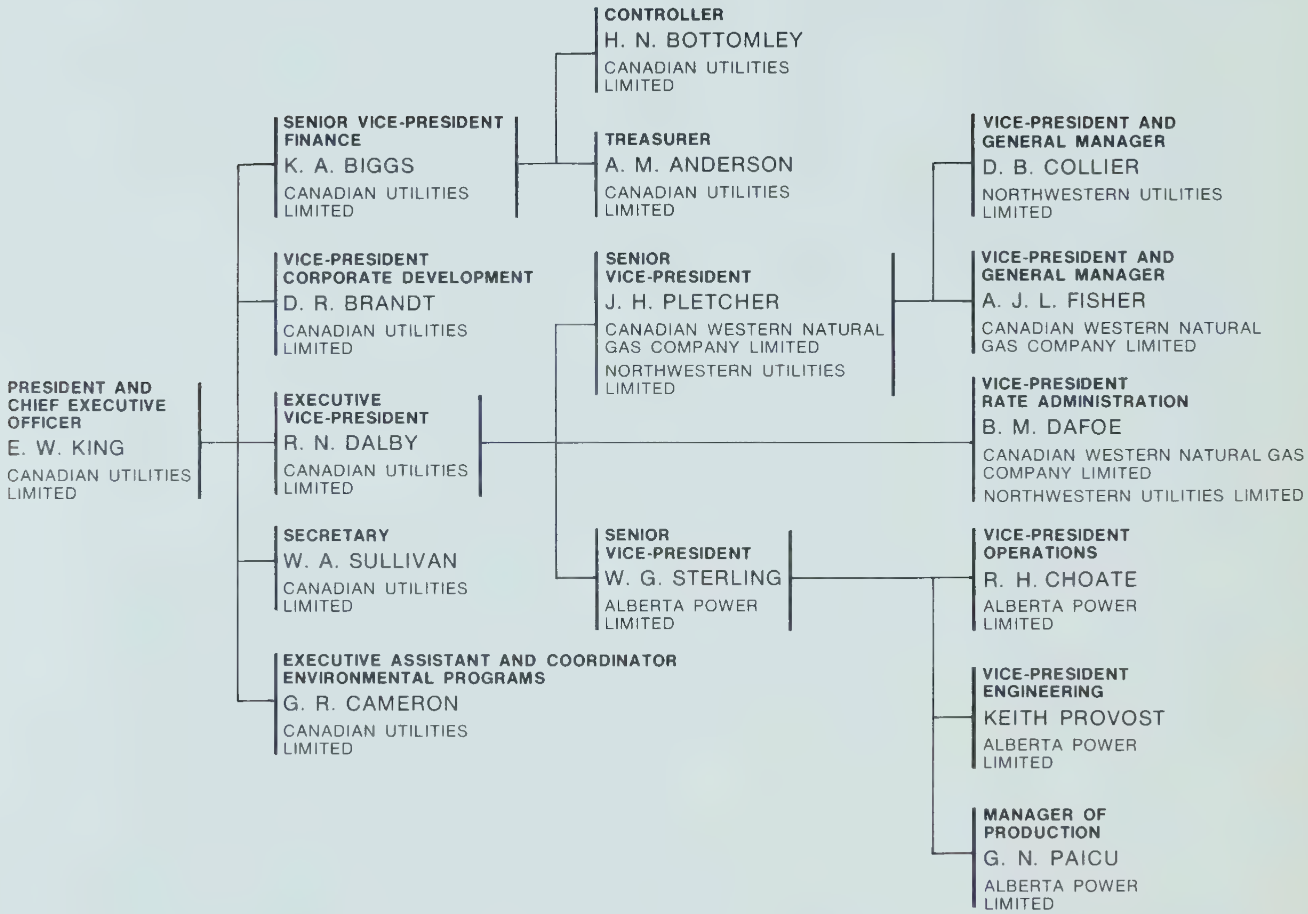
(dollars in thousands except per share data)

	1973	1972
Natural Gas Revenues	$ 82,066	78,875
Electric Revenues	38,305	33,849
	120,371	112,724
Operating Expenses		
Natural gas supply	35,907	32,357
Operating and maintenance	34,729	33,389
Taxes—other than income	6,829	6,516
Depreciation	11,019	10,134
	88,484	82,396
Operating Income	31,887	30,328
Other Income		
Interest capitalized during construction	785	2,170
Interest and dividends	208	466
Gain on purchase of long-term debt	328	36
Miscellaneous	253	306
	1,574	2,978
	33,461	33,306
Income Deductions		
Interest on long-term debt	11,931	11,033
Interest on loans to parent and affiliated companies	371	459
Other interest	1,153	438
Debt discount and expense amortized	235	229
	13,690	12,159
	19,771	21,147
Income Taxes	4,536	5,054
	15,235	16,093
Minority Interests	860	962
Net Earnings Before Extraordinary Items	14,375	15,131
Extraordinary Items — Non-Recurring Gain (Loss)		(89)
Net Earnings	14,375	15,042
Preferred Dividends	2,787	2,766
Net Income to Common Shareholders	11,588	12,276
Common Shares Outstanding	10,064,906	10,062,646
Earnings — Dollars Per Common Share (reflecting 4-for-1 share split September 25, 1972)		
Net earnings before extraordinary items	1.15	1.23
Net earnings	1.15	1.22
Electric Statistics		
Gross plant in service at cost	218,202	198,165
Accumulated depreciation	35,954	31,814
Capital additions	21,377	24,719
Sales (thousands of kilowatt hours)	1,782,908	1,520,031
Maximum demand (thousands of kilowatts)	376	342
Plant capacity (thousands of kilowatts)	512	370
Customers at year-end	84,598	80,492
Communities served	365	365
Miles of power lines	11,245	10,823
Average annual use per residential customer (kilowatt hours)	6,069	5,961
Gas Statistics		
Gross plant in service at cost	252,106	237,682
Accumulated depreciation	78,593	73,760
Capital additions	17,787	17,433
Sales (millions of cubic feet)	242,230	232,800
Maximum daily demand (millions of cubic feet)	1,092	1,106
Customers at year-end	335,494	317,766
Communities served	253	251
Miles of pipe lines	9,837	9,439
Average annual use per residential customer (cubic feet)	212,300	230,000

Prior years' comparative figures reflect the corporate restructuring and acquisitions and have been regrouped to conform with the 1973 presentation.

1971	1970	1969	1968	1967	1966	1965	1964
70,342	62,972	59,221	53,809	51,925	50,594	48,255	43,518
30,552	27,666	21,968	18,830	16,725	15,068	13,959	13,280
100,894	90,638	81,189	72,639	68,650	65,662	62,214	56,798
26,982	22,695	21,330	19,766	19,381	18,086	15,536	14,401
29,103	26,365	23,812	20,606	18,615	17,163	16,210	14,878
5,959	5,288	4,755	4,366	4,076	3,902	3,617	3,213
9,716	9,378	7,921	7,134	6,845	6,361	5,926	5,436
71,760	63,726	57,818	51,872	48,917	45,512	41,289	37,928
29,134	26,912	23,371	20,767	19,733	20,150	20,925	18,870
774	194	1,091	939	383	156	70	93
704	480	336	584	665	294	478	364
379	179	66	197	52	72	57	36
243	16	202	115	67	88	48	143
2,100	869	1,695	1,835	1,167	610	653	636
31,234	27,781	25,066	22,602	20,900	20,760	21,578	19,506
8,804	6,870	6.116	5,785	4,825	4,037	3,705	3,354
263	372	375	47			68	80
708	1,698	993	581	305	199	258	175
206	168	154	147	122	104	103	97
9,981	9,108	7,638	6,560	5,252	4,340	4,134	3,706
21,253	18,673	17,428	16,042	15,648	16,420	17,444	15,800
7,132	6,912	5,705	5,152	5,954	6,860	7,559	7,046
14,121	11,761	11,723	10,890	9,694	9,560	9,885	8,754
1,226	1,160	1,167	1,149	1,138	1,156	1,168	1,128
12,895	10,601	10,556	9,741	8,556	8,404	8,717	7,626
183	234	2,888	207	14	256	647	27
13,078	10,835	13,444	9,948	8,570	8,660	9,364	7,653
2,514	2,514	2,514	2,514	2,415	2,214	2,214	2,214
10,564	8,321	10,930	7,434	6,155	6,446	7,150	5,439
10,056,024	8,948,528	8,873,752	8,873,672	8,860,860	8,838,608	8,792,524	8,733,880
1.03	.90	.91	.81	.69	.70	.74	.62
1.05	.93	1.23	.84	.69	.73	.81	.62
175,477	147,521	132,294	118,556	94,189	77,813	67,998	61,553
28,337	24,568	21,084	18,901	17,093	15,478	13,917	12,878
29,023	16,293	15,150	26,225	17,899	11,149	7,885	6,244
1,274,649	1,118,239	967,276	769,501	645,283	563,112	562,267	424,671
295	281	245	216	178	149	135	136
367	367	344	197	197	193	172	172
77,246	74,193	72,042	70,076	67,503	65,487	63,599	64,021
359	355	343	342	342	340	314	316
9,951	9,715	9,197	8,497	7,602	7,205	6,456	6,125
5,550	5,209	5,127	4,617	4,306	4,054	3,884	3,540
221,757	211,894	200,721	190,024	181,545	172,946	164,691	156,993
68,854	64,038	59,289	55,032	51,050	47,152	43,367	39,832
11,143	12,562	12,062	9,871	9,751	9,328	8,622	5,966
206,630	186,831	173,030	153,055	150,402	143,195	135,291	120,902
1,090	986	904	918	784	752	714	784
303,253	289,457	278,412	266,669	255,332	247,157	239,390	231,484
249	240	238	229	221	206	195	193
9,166	8,753	8,106	7,328	6,410	5,689	5,508	5,266
217,800	217,000	222,600	210,900	209,000	222,100	226,300	206,700

corporate organization



will substantially increase the number of the company's shares available for public trading.

At the annual meeting in April, P.L.P. Macdonnell, Q.C., of Edmonton, was elected a director of the company. Mr. Macdonnell, a partner of Milner and Steer, has been associated with the company as legal counsel for many years. He is a director of the Royal Bank of Canada and a number of other Canadian companies.

E. W. KING
President and Chief Executive Officer

July 30, 1973

CANADIAN UTILITIES LIMITED

and subsidiary companies

Alberta Power Limited and subsidiaries
Canadian Western Natural Gas Company Limited
Northwestern Utilities Limited and subsidiary

Head Office: 10040 - 104 Street,
Edmonton, Alberta, Canada T5J 2V6
Telephone: (403) 424-6161
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LITHOGRAPHED IN CANADA

interim report

Second Quarter June 30 1973

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CANADIAN UTILITIES LIMITED

STATEMENT OF EARNINGS

	3 Months Ended June 30		6 Months Ended June 30	
	1973	1972	1973	1972
	(figures in thousands)			
Operating revenue				
Electric energy sales	$ 9,312	$ 8,178	$19,306	$17,189
Natural gas sales	17,540	16,535	44,274	44,750
	26,852	24,713	63,580	61,939
Operating expenses:				
Natural gas purchased	6,737	5,898	15,620	14,326
Operating	7,241	6,954	14,868	14,393
Maintenance	1,646	1,622	3,052	2,788
Taxes — Income (Note 3)	961	939	4,041	4,715
Taxes — Other than income	1,531	1,426	3,631	3,563
Depreciation	2,369	2,299	5,886	5,641
Less amounts included in operating and other accounts	(139)	(143)	(283)	(290)
	20,346	18,995	46,815	45,136
Net operating income	6,506	5,718	16,765	16,803
Other income:				
Interest capitalized during construction	65	486	534	906
Interest and dividends	31	176	58	255
Gain on purchase of long term debt — net	43	—	123	2
Miscellaneous	78	29	317	206
	217	691	1,032	1,369
	6,723	6,409	17,797	18,172
Income deductions:				
Interest on long-term debt	2,823	2,863	5,659	5,315
Other interest	388	122	718	426
Debt discount and expense amortized	57	61	116	111
	3,268	3,046	6,493	5,852
	3,455	3,363	11,304	12,320
Minority interest in subsidiary companies	215	231	430	532
Net earnings	$ 3,240	$ 3,132	$10,874	$11,788
Basic earnings per common share (Note 3)	$ .25	$ .24	$ .94	$ 1.03
Fully diluted earnings per common share (Note 2)	$ .22	$ .21	$ .75	$ .82

NOTE 1: The interim figures in this report are unaudited.

NOTE 2: Fully diluted earnings per share assume exercise of warrants and conversion of the second preferred shares at the beginning of each period.

NOTE 3: Data for 1972 has been restated to reflect the September 25, 1972 four for one subdivision of the common shares outstanding and to provide for income taxes on a basis consistent with the actual provision for the full year. There were 10,063,426 common shares outstanding on June 30, 1973, compared with 10,060,324 a year earlier.

TIES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	3 Months Ended June 30		6 Months Ended June 30	
	1973	1972	1973	1972
	(figures in thousands)			
Funds provided by:				
Net earnings	**$ 3,240**	$ 3,132	**$10,874**	$11,788
Add depreciation and other charges, less credits, not involving cash outlay	**2,494**	2,701	**6,144**	6,102
	5,734	5,833	**17,018**	17,890
Proceeds from issue of long term debt less expense of issue	—	(22)	—	29,404
Proceeds from issue of common shares	**2**	1	**3**	39
Proceeds from issue of second preferred shares	—	1,197	—	4,392
Decrease in accounts receivable due beyond one year	**38**	35	**38**	35
Contributions for extensions to plant — net	**574**	459	**696**	932
Proceeds from disposal of fixed assets	**315**	173	**411**	430
Total funds provided	**6,663**	7,676	**18,166**	53,122
Funds applied to:				
Additions to fixed assets	**7,307**	11,566	**14,808**	17,817
Reduction of long term debt	**1,066**	1,017	**1,779**	2,282
Dividends paid — common	**1,358**	1,258	**2,717**	2,514
— preferred	**696**	688	**1,394**	1,381
Purchase of minority interest in Subsidiary, excluding Goodwill	—	1,101	—	3,818
Purchase of Goodwill	—	96	—	574
Purchase of investments	**(17)**	9	**29**	95
Increase in deferred expense	**107**	193	**152**	298
Other	—	(123)	**7**	23
Total funds applied	**10,517**	15,805	**20,886**	28,802
Increase (decrease) in working capital	**$ (3,854)**	$ (8,129)	**$ (2,720)**	$24,320

TO THE SHAREHOLDERS

Continued substantial growth in electric and gas operations took place in the first half of 1973. Gas heating sales, however, were adversely affected by weather which was warmer than that experienced in the first half of 1972.

Net earnings for the first half were $10,-874,000 or 94 cents per common share, compared to $11,788,000 or $1.03 per share a year earlier. Net earnings and earnings per share for 1972 have been restated as outlined in Note 3 to the statements.

Natural gas revenues were $44,274,000 with sales of 129 billion cubic feet. The three degrees warmer than normal weather depressed revenues by an estimated $2,000,000 and gas sales by 5.4 billion cubic feet. Due to the weather sensitive nature of much of the company's business, interim results should not be taken as indicative of the results of the full fiscal year. For example, if 1972 temperatures had prevailed in 1973, revenues would have been an estimated $3,800,000 higher and sales would have increased by 10.2 billion cubic feet of gas. There was record growth in gas customers, with 16,717 being connected in the past 12 months to a new total of 323,936.

An increase of 20 percent took place in electric energy sales to 914 million kilowatt hours. Revenues were up 12 percent at $19,-306,000. A substantial portion of this increase is due to additional service to Alberta's oilfields, where the company now has 2,200 connections. The number of electric customers rose to 81,539 at the end of June, an increase of 3,526 over June, 1972.

The company, through its subsidiary Alberta Power, has been working closely with Syncrude Canada Limited to develop the utility plant for Syncrude's projected tar sand project. The engineering design of the utility complex to supply electric power, steam and treated water, is presently being carried out by the company. In addition the company has applied to the Energy Resources Conservation Board to construct a 200-mile high voltage transmission line to connect the tar sands area to the Alberta inter-connected system.

Early in July the company sold at par, by private placement in Canada, $15,000,000 8¾ percent debentures. Proceeds of the issue are being used to finance the continued needs of the company for its capital expansion program.

The continuing high cost of new capital is a matter of concern. This cost, together with increases in operating cost and anticipated increases in purchased gas expense, eventually must be reflected in an upward adjustment of consumer rates in the operating utility companies.

On July 16 a joint announcement was made by Canadian Utilities and IU International Corporation of a share exchange plan which will broaden Canadian ownership of CU. IU plans to offer 889,444 shares of CU $1.25 convertible second preferred shares currently held by IU in exchange for shares of common stock of IU International owned by residents of Canada. The terms of the exchange will be determined after approval of the offer by the appropriate securities commissions. The effect of the offer